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Proposed programme budget for the biennium 2014-2015

Internal oversight: proposed programme budget for the biennium 2014-2015

Report of the Independent Audit Advisory Committee

Summary

The present report reflects the comments, advice and recommendations of the Independent Audit Advisory Committee on the Office of Internal Oversight Services proposed programme budget for the biennium 2014-2015.

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I. Introduction

1. The Independent Audit Advisory Committee has undertaken a review of the proposed programme budget for the Office of Internal Oversight Services (OIOS) for the biennium 2014-2015 in accordance with paragraph 2 (d) of its terms of reference (see resolution 61/275, annex). The Committee's responsibility in this respect is to review the budget proposal of OIOS, taking into account its workplan, and to make recommendations to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions. The present report contains the Committee's comments, advice and recommendations relating to the OIOS proposed programme budget for the biennium 2014-2015 for consideration by the Advisory Committee on Administrative and Budgetary Questions and the General Assembly.

2. The Programme Planning and Budget Division of the Department of Management provided the Committee with the internal oversight section of the proposed programme budget for the biennium 2014-2015 as well as with relevant supplementary information. OIOS also provided other supplementary information relating to its budget proposal, which the Committee took into consideration. At its twenty-second session, held from 10 to 12 April 2013, the Committee allocated a significant proportion of its agenda to discussions with OIOS, as well as the Controller, on the OIOS budget.

3. The Committee would like to acknowledge the efforts of the Programme Planning and Budget Division in expediting the preparation of the internal oversight section of the budget for review by the Committee. The Committee also appreciates the cooperation and responsiveness on the part of OIOS in providing information for the preparation of the present report.

II. Review of the proposed programme budget for the Office of Internal Oversight Services for the biennium 2014-2015

4. The projected resources for OIOS for the biennium 2014-2015, from the regular budget and other assessed and extrabudgetary funds combined, total $121,063,000, compared with a revised estimate of $104,323,200 for 2012-2013. The Committee noted that while the overall regular budget of OIOS after recosting showed a 16 per cent increase, that increase was owing mainly to increases in other assessed and extrabudgetary components which rose by 32.1 and 5.7 per cent, respectively, from $46,732,200 and $16,870,800 for 2012-2013 to an estimated $61,736,700 and $17,838,400 for 2014-2015. The increase is attributable primarily to peacekeeping operations activities for 2014/15, as illustrated in table 1 below.

Table 1
Financial resources by component
(Thousands of United States Dollars)

Component	*2010-2011 expenditure*	*Percentage share*	*2012-2013 resources at revised rate*	*Percentage share*	*2014-2015 estimate*	*Percentage share*	*Resource growth*	
							As a percentage of 2010-2011 expenditure	*As a percentage of 2012-2013 resources at revised rate*
Regular budget	**35 006.8**	**37.8**	**40 720.2**	**39.0**	**41 487.9**	**34.3**	**18.5**	**1.9**
Other assessed	**47 773.8**	**51.7**	**46 732.2**	**39.0**	**61 736.7**	**51.0**	**29.2**	**32.1**
Services in support of:								
International Criminal Tribunal for Rwanda	644.1	0.7	775.6	0.7	775.8	0.6	20.4	0
International Tribunal for the Former Yugoslavia	526.8	0.6	706.6	0.7	708.4	0.6	34.5	0.3
Capital master plan	706.0	0.8	1 315.3	1.3	869.7	0.7	23.2	(33.9)
Peacekeeping operations activities	45 896.9	49.6	43 934.7	42.1	59 382.8	49.1	29.4	35.2
Extrabudgetary	**9 711.4**	**10.5**	**16 870.8**	**16.2**	**17 838.4**	**14.7**	**83.7**	**5.7**
United Nations organizations	7 382.4	8.0	13 972.5	13.4	14 972.5	12.4	102.8	7.2
Support for extrabudgetary substantive activities	1 856.7	2.0	2 269.0	2.2	2 250.8	1.9	21.2	(0.8)
Technical cooperation activities	472.3	0.5	629.3	0.6	615.1	0.5	30.2	(2.3)
Total	**92 492.0**	**100**	**104 323.2**	**100**	**121 063.0**	**100**	**30.9**	**16.0**

Note: Budget figures are based on documents A/66/6 (Sect. 31) and A/68/6 (Sect. 30) and the relevant supplementary information.

5. The proposed programme budget for OIOS for the biennium 2014-2015 (regular budget) is estimated at $40,330,200 (before recosting), which is a decrease of $390,000, or 1 per cent. However, the figures after recosting show an increase of $767,700, or 1.9 per cent, compared with the 2012-2013 resources at revised rates. Comparison between the 2012-2013 and 2014-2015 bienniums in the present report uses values before recosting, which excludes estimated increases owing to inflation and currency fluctuations, in order to facilitate comparison of the base budget.

6. Table 2 presents the regular budget proposal for OIOS for the biennium 2014-2015 as compared with the appropriation/actual expenditure for the biennium 2010-2011 and resources for the biennium 2012-2013 at revised rates.

Table 2
Financial resources by programme
(Thousands of United States Dollars)

	2010-2011		*2012-2013*	*2014-2015*	*Variance (percentage)*		
	Revised appropriation	*Expenditure*	*Resources at revised rates*	*Proposed budget (before recosting)*	*2014-2015 compared with 2010-2011 appropriation*	*2014-2015 compared with 2010-2011 expenditure*	*2014-2015 compared with 2012-2013 appropriation*
A. Executive direction and management	2 403.0	2 280.1	41.3	3 206.5	33.4	40.6	17.0
B. Programme of work	33 901.1	30 602.1	35 241.4	34 520.5	1.8	12.8	(2.0)
Subprogramme 1. Internal audit	15 522.7	14 211.6	16 291.3	15 433.9	(0.6)	8.6	(5.3)
Subprogramme 2. Inspection and evaluation	7 078.8	7 425.8	43.4	8 015.6	13.2	7.9	6.3
Subprogramme 3. Investigations	11 299.6	8 964.7	11 406.7	11 071.0	(2.0)	23.5	(2.9)
C. Programme support costs	2 620.9	2 124.6	37.5	2 603.2	(0.7)	22.5	(4.9)
Total	**38 925.0**	**35 006.8**	**40 720.2**	**40 330.2**	**3.6**	**15.2**	**(1.0)**

Note: Budget figures are based on documents A/66/6 (Sect. 31) and A/68/6 (Sect. 30) and the relevant supplementary information.

7. The 1 per cent decrease in the budget compared with the 2012-2013 biennium is mainly the result of the reduction of four posts (2 D-1, 1 P-2/1 and 1 General Service (Other level)) from the three subprogrammes. In addition to the proposed reduction of the four posts, OIOS has proposed the redeployment of five posts (in subprogramme 3, Investigations) within the subprogrammes between duty stations.

A. Executive direction and management

8. The proposed number of posts in the Office of the Under-Secretary-General for Internal Oversight Services for the biennium 2014-2015 remains unchanged at eight. The 17 per cent increase in resources was owing mainly to the delayed impact of the post at the level of Assistant Secretary-General and the cost of the proposed replacement of the Auto Audit and Issue Track programmes with one that was web-based.

9. With respect to the Assistant Secretary-General post, the Committee also recalled paragraph 8 of its previous report (A/66/85) in which it endorsed the creation of the post so as, inter alia, to foster the overall departmental strategy and intradepartmental cooperation initiatives. During its discussion with OIOS, the Committee was informed of the current strategy whereby the Internal Audit Division would report directly to the Assistant Secretary-General, and the Investigations Division and the Inspection and Evaluation Division would report directly to the Under-Secretary-General. **While welcoming those initiatives, which are aimed at improving the efficiency and effectiveness of OIOS, the Committee recommends that such initiatives not create the very silo effect among the divisions that the creation of the Assistant Secretary-General post was meant to mitigate.**

10. With respect to the proposed web-based system for tracking OIOS recommendations, the Committee recalled paragraph 25 of General Assembly

resolution 65/270 which requested the Secretary-General to invite relevant oversight bodies to explore the possibility of utilizing the web-based system of the Joint Inspection Unit (JIU) to enhance coordination. The Committee inquired as to whether OIOS would use the system recently launched by JIU or create its own. The Committee was informed that in the light of the business case developed for this web-based programme, upon approval of the budget, OIOS would review all the systems available, including the one used by JIU, to determine which system would best fit the needs of the Office. **The Committee welcomes the effort OIOS is making to improve its recommendation monitoring and audit process and recommends that OIOS continue to enhance the coordination among oversight bodies in accordance with resolution 65/270, as well as to ensure that the needs of stakeholders, including client offices/departments, continue to be taken into consideration in this regard.**

B. Programme of work

Subprogramme 1
Internal audit

11. The proposed programme budget for subprogramme 1, Internal audit, for the biennium 2014-2015, is $15,433,900 (before recosting). This amount represents a net decrease of $857,400, or 5.3 per cent, compared with the appropriation of $16,291,300 for the biennium 2012-2013. The Committee was informed that the decrease in the overall cost for the subprogramme was owing primarily to the reduction of the post requirements for internal audit from the 48 approved in the biennium 2012-13 to the 46 in the proposed budget for 2014-2015.

Residual risk and capacity gap assessment

12. The Committee continued to hold extensive discussions with OIOS on the audit work planning process to ascertain how the Internal Audit Division takes such workplans into account in determining the level of resources required to deliver the programme of work. The Committee continues to maintain that using risk assessments to prioritize and allocate audit resources is a best practice initiative which the Committee supported in its previous reports on the budget for OIOS. In the light of the current financial environment, the Committee has continued to press OIOS to review and refine its risk-based workplan assumptions to determine the best utilization of available resources.

13. In this respect, the Committee was informed that in preparation of the internal audit workplan for 2014-2015, the Division had identified the top organizational risks that might hinder the Secretariat from achieving its objectives, and the possible causes of such risks and, in addition, the related key controls, so as to prioritize audit assignments for 2014-2015. In this regard, OIOS informed the Committee that it would continue to improve its methodology of identifying areas of significant residual risk, together with increased use of horizontal audits.

14. In paragraph 12 of its previous report (A/66/85), the Committee took note that OIOS planned to audit the internal controls as a basis to arrive at the residual risk faced by the Organization. During its deliberations, the Committee followed up with OIOS on progress in this regard. OIOS clarified that it had improved its

methodology for risk assessment and the workplan process to allow for the systematic assessment of residual risk from the audit universe.

15. **While acknowledging the progress achieved thus far, the Committee believes that there is still room for improvement with respect to a systematic assessment of residual risk. This is all the more important, as the Organization faces a challenging financial situation, which is forcing many departments/offices to do more with less, implying that a more adaptable and responsive oversight regime is critical.**

16. In the meantime, OIOS indicated that the abolishment of one post at the D-1 level in the Nairobi Office and one General Service post in the New York Office would not affect the attainment of its objectives. Based on its workplan, OIOS proposes to produce up to 450 audit reports for programme managers during the biennium (up from 400 planned for the biennium 2012-2013). Of those, 130 reports (65 per year) will be for programmes funded under the regular budget.

17. **Notwithstanding that the level of residual risk on which the current workplan is based is still evolving, the Committee reviewed and accepted the assurance of OIOS that the prioritization in the audit workplan would address the highest risks in the Organization. Accordingly, the Committee endorses the resource requirements for the Internal Audit Division as presented.**

Subprogramme 2
Inspection and evaluation

18. The proposed programme budget for the inspection and evaluation subprogramme amounts to $8,015,600 (before recosting), representing a net increase of $472,200, or 6.3 per cent, compared with the appropriation of $7,543,400 for the biennium 2012-2013. The net increase is owing primarily to staff and other staff costs. In spite of a proposed reduction of one post at the D-1 level, the delayed impact of the six posts created in the previous biennium has led to a 4.1 per cent increase in staff costs. At the same time, in order to address the impact of the above reduction in staffing levels, the Committee was informed that "other staff" costs had increased by $235,300 (representing costs for general temporary assistance for 2014).

Risk assessment and capacity gap analysis

19. With respect to risk assessment, the Committee was informed that that the Inspection and Evaluation Division had moved away from using proxy indicators to a new approach that uses a combination of direct risk information from the Internal Audit Division, assessment of the monitoring and evaluation capacity, and an analysis of the priorities set by the General Assembly, the Secretary-General and other stakeholders. Accordingly, the Inspection and Evaluation Division indicated that by the end of the biennium 2014-2015, it would have completed the evaluation of all top-risk programmes and five of the medium-risk ones. At this rate, the Division expects to complete a full cycle of evaluation of all Secretariat programmes by the biennium 2016-2017, 10 years after the creation of the Division.

20. In its prior reports, the Committee recommended that OIOS conduct capacity gap analysis based on residual risk assessment. The Committee also recalled paragraph 15 of its previous report (A/66/85) where it was informed of the decision to reduce the evaluation cycle from 11-13 years to 8 years as approved by the

Committee for Programme and Coordination in the 2012-2013 strategic framework and by the General Assembly in its resolution 65/244.

21. With respect to the capacity gap analysis, OIOS had indicated that to be able to evaluate all Secretariat entities (as well as prioritizing for more frequent evaluations of the high-risk entities and the completion of other recurring Inspection and Evaluation Division evaluation products; namely, thematic evaluations, triennial reviews and biennial reports) within an eight-year cycle, the Inspection and Evaluation Division would require an additional post of Evaluation Team Leader (P-4), two posts of Evaluation Officer (P-3), and one post of Associate Evaluation Officer (P-2). However, OIOS is not requesting the additional resources at this time. The Committee was informed that OIOS was aware of the financial situation and that it expected to realize efficiencies within the Division, including enhancement of the evaluation methodology.

22. **The Committee is mindful of the environment OIOS is working under, yet at the same time realizes that an effective and robust internal oversight function is essential for the Organization to achieve its objectives. The Committee is also aware that risk-based workplanning has yet to become robust enough to be the sole determinant of resource levels. While the Committee supports the reorganization of the Inspection and Evaluation Division, it is not in a position to provide an opinion on the efficacy of reducing the resources of the Division at this time. Even as it appreciates the improvements the Division has made in its risk-assessment approach, the Committee recommends that OIOS work on enhancing its risk assessment capacity and reassess its workplans to address the provisions of General Assembly resolution 65/244 in which the Assembly called for a reduction in the evaluation cycle.**

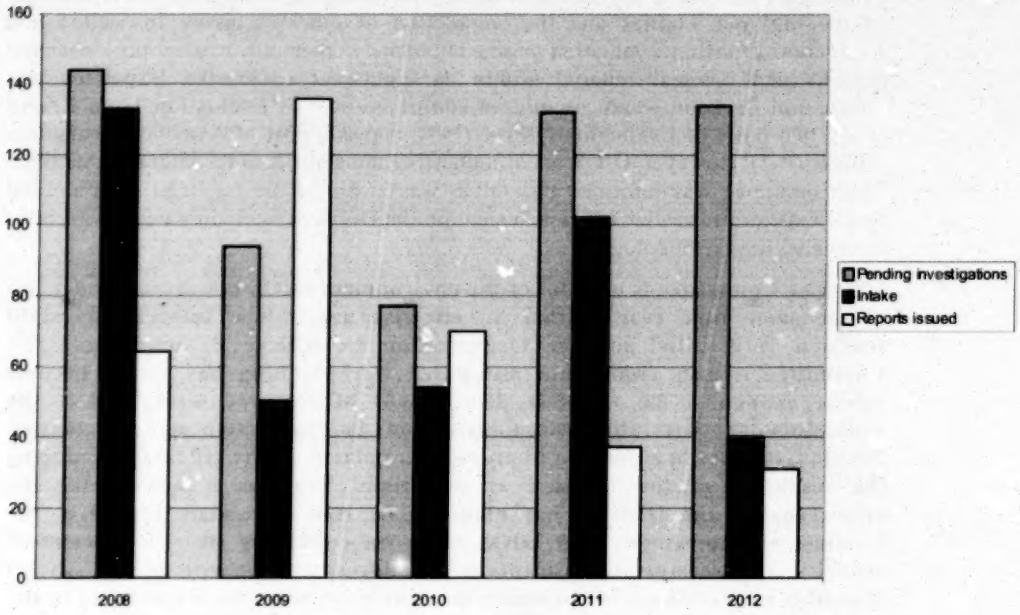
Subprogramme 3
Investigations

23. The proposed programme budget for subprogramme 3, Investigations, for the biennium 2014-2015 amounts to $11,071,000 (before recosting), representing a net decrease of $335,700, or 2.9 per cent, compared with the appropriation of $11,406,700 for the biennium 2012-2013. The reduction in the budget is attributable mainly to the proposed abolishment of one post at the P-2 level and a reduction in travel costs. The Independent Audit Advisory Committee was also informed that OIOS planned to redeploy five posts within the Investigations Division.

24. According to OIOS, the workplan for investigations is defined in large part by the need to strengthen the investigations function while maintaining the current level of productivity without any material increase in staff resources. The investigations workplan comprises three parts, namely, the investigations caseload (which is largely demand driven), internal projects to strengthen the investigations function, and management and administrative tasks. According to information provided by OIOS (see figure below), the intake levels have been declining from a high of about 130 cases in 2008 to only 40 in 2012. The above trend notwithstanding, the number of cases pending investigation remained consistently high in 2011 and 2012, at 130. The Committee observed instances where investigations took more than one year to conclude. **The Committee continues to be concerned at the extended length of time it takes OIOS to finalize investigations and recommends that a concerted effort be made to address this problem.**

Figure
Caseload trends for the regular budget

Regular budget caseload of the Investigations Division, OIOS



Source: OIOS

25. With regard to the caseload, the Committee inquired about the reason for the decline in intake and was informed that there could be several factors contributing to that trend, including the possible absence of proper outreach/awareness, that was hindering the reporting of potential cases. OIOS also indicated that the intake in 2011 represented an anomaly owing to the large number of cases of health insurance fraud (59) that had led to the apparent spike. The Committee expressed the belief that the declining trends could be an all the more compelling reason for OIOS to embark on a proactive and risk-based workplan. With respect to the proactive risk assessment, the Committee recalled paragraph 20 of its previous report (A/66/85), in which it had welcomed the fact that the Investigations Division had agreed to incorporate a more proactive and risk-based approach to its workplan. **During the Committee's deliberations, OIOS indicated that the Investigations Division had improved its forensic capacity as well as its capacity in procurement fraud-related irregularities. Moreover, OIOS further indicated that it was establishing a proactive investigations unit to further assess risk-based matters, including high-risk procurement matters. The Committee welcomes those two initiatives and looks forward to receiving updates in this respect in future sessions.**

26. In the light of the above, given that the proposed programme budget for investigations for 2014-2015 continues to be based on the five-year historical average of intake (which is declining) rather than on the investigations workplan, and without prejudice to the results of the recent task force on investigations, the

Committee cannot provide an overall assurance as to the adequacy of the proposed level of the budget for investigations.

27. Included in the budget is the previous proposal to redeploy five posts within the investigations subprogramme as part of the organizational restructuring to strengthen the investigations function. OIOS continues to justify the redeployment of investigations staff by citing: (a) the need to facilitate its effort to effectively address the remaining caseload of the Procurement Task Force, which had been transferred to the Investigations Division at the beginning of 2009; (b) less demand for procurement investigations in Nairobi; (c) the demand for investigation reports of higher quality and post-investigation support expected from the new system for the administration of justice; and (d) the need to strengthen the work of the Digital Forensic Unit. **In principle, as stated in its previous reports (A/62/814 and Add.1, A/63/703, A/64/86 and A/66/85), the Committee continues to support the restructuring as proposed by OIOS.**

C. Programme support

28. The proposed budget for programme support for the biennium 2014-2015 amounts to $2,603,200 (before recosting). That amount represents a reduction of $134,300, or 4.9 per cent, compared with the appropriation of $2,737,500 for the biennium 2012-2013. The number of posts remains unchanged, at eight. The decrease in non-post resources is attributable mainly to reductions in general temporary assistance and contractual services.

III. Conclusion

29. The members of the Independent Audit Advisory Committee respectfully present the present report containing its comments and recommendations for consideration by the General Assembly.

(*Signed*) J. Christopher **Mihm**
Chair, Independent Audit Advisory Committee

(*Signed*) Vadim V. **Dubinkin**
Vice-Chair, Independent Audit Advisory Committee

(*Signed*) John F. S. **Muwanga**
Member, Independent Audit Advisory Committee

(*Signed*) Vinod **Rai**
Member, Independent Audit Advisory Committee

(*Signed*) Adrian P. **Strachan**
Member, Independent Audit Advisory Committee